

GUIDELINES

FOR PREPARATION OF THE

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT

ANNUAL STATEMENT OF ASSURANCE

FISCAL YEAR 2000

OSD/DOD FIELD ACTIVITY VERSION

September 1, 2000

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APPENDICES

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ANNUAL STATEMENT OF ASSURANCE REQUIREMENTS

In accordance with Department of Defense (DoD) Directive 5010.38, "Management Control Program," August 26, 1996, and DoD Instruction 5010.40, "Management Control Program Procedures," August 28, 1996, the Head of each OSD Principal/Director, DoD Field Activity shall provide to the Director, Administration and Management by October 20, a statement of assurance based on a general assessment of the effectiveness of their management controls. This statement shall also include material weaknesses and the plan to correct them. **The statement must be signed by the OSD Principal/Director of DoD Field Activity or the principal deputy.** DoD Field Activity Statements will be submitted through the applicable OSD Principal.

The Annual Statement submission shall consist of the following deliverables.

- A cover memorandum **addressed to the Director, Administration and Management, signed by the OSD Principal or the principal deputy**, providing the assessment by the Component's senior management as to whether there is reasonable assurance that the Component's management controls are in place and effectively operating. Under OMB Circular A-123, "Management Accountability and Control," June 21, 1995, this statement of assurance must take one of the following three forms (see sample memorandum on page 6):

1. An unqualified statement of assurance (reasonable assurance). Each unqualified statement must have a firm basis for that position, which will be summarized in the cover memorandum. A more extensive explanation of that position must be clearly articulated in the body of the statement.

2. A qualified statement of assurance (reasonable assurance with the exception of material weaknesses noted). The material weaknesses in management controls that preclude an unqualified statement should be cited in the cover memorandum.

3. A negative statement (no reasonable assurance). The basis for this position should be summarized in the cover memorandum.

- TAB A: A description of how the DoD Component evaluation was conducted and a statement, based on that evaluation, on the reasonable assurance achieved (sample on page 9).

- TAB B-1: A listing of the titles of all uncorrected and corrected material weaknesses as of the conclusion of fiscal year FY 2000 along with projected correction dates (for uncorrected weaknesses) and actual correction dates (for corrected weaknesses). See page 13 for more specific guidance.

- TAB B-2: Narrative descriptions of uncorrected material weaknesses (to include current year and updates of disclosures for prior years). These narratives shall include the specific plans and schedules for corrective action. Since the corrective actions may be in development, it is acceptable for the narratives to reflect the current perceptions of the Component's senior management. However, the updated material weakness narratives for prior years must explain the reasons for changes to corrective milestones and dates. See page 14 for more specific guidance.

- TAB B-3: Narrative descriptions of material weaknesses corrected in the current year, including specific actions taken to correct the weakness. This section shall include material weaknesses from both current and prior years. Each corrected material weakness shall include, as the last milestone, a validation milestone which describes how the corrective action was evaluated and how its effectiveness was certified. See page 17 for more specific guidance.

- TAB C: Pursuant to FMFIA section 4, the status of finance, accounting and critical feeder systems conformance to the requirements prescribed by OMB Circular A-127-Revised shall be reported in the FY 2000 edition of the “DoD Financial Management Improvement Plan” (FMIP). See page 18 for more specific guidance.

- Other disclosures or special presentations, including significant management control accomplishments that may arise, from time-to-time, due to specific requests or inquiries. In a March 15, 1999, memorandum signed by the Senior Civilian Official, Office of the Assistant Secretary of Defense (Command, Control, Communications and Intelligence) (OASD(C3I)), the DoD Components were directed to treat computer software piracy as a special emphasis area under their Management Control Programs. In addition to the submission of any material weaknesses resulting from your computer software piracy assessments, Components are requested to summarize their assessments in Tab A of their annual statements. A copy of the March 15 memorandum is included as appendix I of this guidance and also may be accessed at <http://www.c3i.osd.mil/org/cio/index.html> on the OASD(C3I) web page.

SAMPLE COVER MEMORANDUM FOR ANNUAL STATEMENT OF ASSURANCE

MEMORANDUM FOR THE DIRECTOR, ADMINISTRATION AND MANAGEMENT

SUBJECT: Annual Statement Required under the Federal Managers' Financial Integrity Act (FMFIA) of 1982

As **(title)** of the **(name of Component)**, I recognize the importance of management controls. I have taken the necessary measures to ensure that the evaluation of the system of management control of the **(name of Component)** has been conducted in a conscientious and thorough manner. The results indicate that the **(name of Component)** system of internal accounting and administrative control in effect during the fiscal year that ended September 30, 2000, taken as a whole, **[the statement must take one of three forms: "provides reasonable assurance" (unqualified statement); "provides reasonable assurance with the exception of the material weaknesses noted" (qualified statement); "does not provide reasonable assurance" (negative statement)]** that management controls are in place and operating effectively. Furthermore, the objectives of the FMFIA were **(achieved or not achieved)** within the limits described in Tab A. Tab A also provides information on how the evaluation was conducted and cites any deficiencies in the process.

The following paragraph will be included if material weaknesses were identified, either in the current fiscal year or past fiscal years:

The evaluation did identify material weaknesses. Tab B-1 provides a list of material weaknesses that still require corrective action. Tab B-2 provides an individual narrative for each material weakness listed at Tab B-1. **(Include the previous two sentences if your Component has uncorrected material weaknesses)** Tab B-3 provides an individual narrative for each material weakness corrected during the period. **(Include the previous sentence if your Component corrected any material weaknesses during the past fiscal year)**

The following paragraph will be included if your Component has critical feeder systems and finance and accounting systems in the Financial Management Systems inventory (as identified in the FY 2000 Financial Management Improvement Plan):

An inventory of the **(name of Component)** critical feeder systems and finance and accounting systems and details on whether the systems conform to the requirements of Office of Management and Budget (OMB) Circular A-127-Revised is incorporated in the FY 2000 edition of the DoD Financial Management Improvement Plan.

The following paragraph will be included if the preceding paragraph does not apply to your Component:

The report on critical feeder systems or finance and accounting systems conformance to the requirements of OMB Circular A-127-Revised is not applicable to **(Name of Component)**.

(Signature of Component Head or Principal Deputy)

CONCEPTUALIZING A MATERIAL WEAKNESS

Defining and specifying a management control material weakness is a management decision. Conceptualizing and clearly stating a specific Management Control (MC) Program weakness requires thought regarding the abstraction that is identified as “the weakness.” The weakness, however, shall be defined and specified in such a way that it will provide the relevant “fences” that will enable DoD senior managers to visualize the breadth, dimensions and impact of the weakness. The milestones specified to correct the weakness should resolve the materiality of the problem for the entire reporting DoD Component.

Although audit reports are an important source for identification of weaknesses, the appearance of a weakness in an audit report does not necessarily warrant reporting it as a material weakness. As stated in DoD Instruction 5010.40, the determination about whether a weakness is material enough to warrant reporting to levels higher than that at which it was discovered always shall be a management judgment. If a weakness first was identified in an audit report, the scope of the corrective actions should not focus on or be limited to only one or the few physical locations identified in the audit report. It would be the exceptional weakness that is sufficiently material to warrant reporting to the Secretary of Defense when limited to only one (or a few) physical location(s). Milestones should address and correct the specified weakness, in its entirety, for the entire DoD Component. For some smaller Components with only a few sites, however, the one site focus of an audit report may be sufficient. The same weakness should not reappear as a new weakness in a future Annual Statement because new audit reports have revealed new instances of the same problem at other physical locations. If new additional audit disclosures are significant, then a revision(s) to the milestone(s) associated with the originally reported weakness are necessary. The Component’s current-year Annual Statement should reflect the revisions. Remember, a weakness should be resolved throughout the Component, and not just in a limited context.

Specification of the weakness and specification of the corrective actions (milestones) should be consistent. For example, if an audit report in the civilian personnel environment concluded that a DoD Component had inadequately implemented controls which would assure effective implementation of equal employment opportunity (EEO) requirements, the reported weakness and milestones should be consistent with that problem. It would be incorrect to report a weakness stating that the Component will correct deficiencies in civilian hiring practices and then report milestones that address only the EEO requirements deficiency. In that case, the specification of the weakness would be too broad (i.e., implying action greater than the Component intends to take). Furthermore, if the audit report addressed only a deficiency in one aspect of EEO requirements, then the weakness should specify the more narrow, and correct, specification of the problem. The Component should not report a weakness that implies a deficient application of all EEO requirements unless management intends to broaden the scope of the action.

It often is preferable to address several related problems in one weakness statement; however, Components should be cautious when defining a weakness. For example, in addition to the hypothetical EEO weakness stated above, a Component might have concluded that there are other control problems related to civilian hiring practices. Combining all the problems and reporting a weakness which makes the broad statement that the Component will correct deficiencies in civilian hiring practices is still too general and overstates the dimensions of the weakness. The weakness statement should be confined to the scope of the specific problem(s) addressed.

As a final note, Component points of contact sometimes are uncertain when attempting to distinguish an FMFIA section 2 management control weakness from an FMFIA section 4

noncompliant financial management system. This issue can be resolved by determining if the failure is in the financial management system design. If the failure is in the execution of a financial management system's requirements (e.g., data collection, human error, or failure to follow guidance)--when the system itself is adequately designed--then the problem should be reported as a section 2 management control weakness (Tab B). Only financial management system design issues should be reported as noncompliant systems under section 4 (Tab C).

DESCRIPTION OF THE CONCEPT OF REASONABLE ASSURANCE AND HOW THE EVALUATION WAS CONDUCTED

This section describes the concept of reasonable assurance and the evaluation process used. The concept of reasonable assurance should be described as follows:

The system of internal accounting and administrative control, of the **(name of Component)**, in effect during the fiscal year ending September 30, 2000, was evaluated in accordance with the guidance in Office of Management and Budget (OMB) Circular No. A-123 (Revised), "Management Accountability and Control," dated June 21, 1995, as implemented by DoD Directive 5010.38, "Management Control Program," dated August 26, 1996 and DoD Instruction 5010.40, "Management Control Program Procedures," dated August 28, 1996. The OMB guidelines were issued by the OMB Director, in consultation with the Comptroller General of the United States, as required by the "Federal Managers' Financial Integrity Act of 1982." Included is an evaluation of whether the system of internal accounting and administrative control of the **(name of Component)** is in compliance with standards prescribed by the Comptroller General. **(If a self-evaluation of the system of internal accounting and administrative control was not conducted, or the evaluation was insufficient when compared to the Guidelines, so indicate and provide an explanation).**

The objectives of the system of internal accounting and administrative control of the (name of Component) are to provide reasonable assurance that:

- The obligations and costs are in compliance with applicable laws
- Funds, property, and other assets are safeguarded against waste, loss, unauthorized use, or misappropriation
- Revenues and expenditures applicable to agency operations are properly recorded and accounted for to permit the preparation of reliable accounting, financial and statistical reports and to maintain accountability over the assets.

The evaluation of management controls extends to every responsibility and activity undertaken by **(name of Component)** and is applicable to financial, administrative and operational controls. Furthermore, the concept of reasonable assurance recognizes that (1) the cost of management controls should not exceed the benefits expected to be derived and (2) the benefits consist of reductions in the risks of failing to achieve the stated objectives. The expected benefits and related costs of control procedures should be addressed using estimates and managerial judgment. Moreover, errors or irregularities may occur and not be detected because of inherent limitations in any system of internal accounting and administrative control, including those limitations resulting from resource constraints, congressional restrictions, and other factors. Finally, projection of any evaluation of the system to future periods is subject to risk that procedures may be inadequate because of changes in conditions, or that the degree of compliance with procedures may deteriorate. Therefore, statements of reasonable assurance are provided within the limits of the preceding description.

The evaluation was performed in accordance with the guidelines identified above. The results indicate that the system of internal accounting and administrative control of the **(name of Component)** in effect during the fiscal year that ended September 30, 2000, taken as a whole, **(complies/does not comply)** with the requirement to provide reasonable assurance that the above mentioned objectives were achieved. This position on reasonable assurance is within the limits described in the preceding paragraph.

The description of how the evaluation was conducted should include the following:

1. The progress made in institutionalizing the program
2. Any improvements to program coverage
3. A description of the problems encountered in implementing the program
4. Other program considerations
5. Any deviations from the process as outlined in the OMB Guidelines
6. Any special concerns addressed in reports by the IG, DoD or Component audit, investigation, inspection and/or internal review organizations regarding Management Control (MC) progress, program needs, and/or problems
7. Methods, mechanisms, or techniques employed in the discovery or execution phases of the program. The following are examples of methods, mechanisms, or techniques:
 - a. MC Weakness Tracking System (number of weaknesses and milestones)
 - b. Component IG or Audit Service Findings
 - c. Reports of Component Internal Reviews and Inspections
 - d. IG, DoD Reports and Reviews
 - e. MC Training
 - f. MC Performance Standards
 - g. GAO Reports and Reviews
 - h. Review of Office of the Secretary of Defense (OSD) Functional Proponent Proposals (e.g., systemic weaknesses)
 - i. Information Technology Initiatives
 - j. MC References in Directives, Regulations, and other Guidance
 - k. Congressional Reviews and Hearings
 - l. Command or other Subordinate “Letters of Assurance”
 - m. Productivity Statistics
 - n. Defense Regional Interservice Support Studies
 - o. Management Reviews in other Functional Areas (e.g., Procurement; Command, Control, Communications and Intelligence; Financial; or Environmental)
 - p. Quality Assurance Reviews
 - q. “Hot Line” Reports.

If your MC process employs any of the preceding items, or any other methods, mechanisms, or techniques, they should be described in the narrative for Tab A.

Office of the Secretary of Defense Systemic Weakness Disclosure

In February 1994, the Secretary of Defense issued guidance that, in part, directed OSD Functional Proponents to identify and report “systemic” DoD material MC weaknesses. Narratives identifying OSD systemic weaknesses periodically are forwarded to DoD Component focal points.

As a last disclosure in Tab A, all DoD Components shall develop a section entitled “Systemic Weaknesses.” Below the title of each OSD systemic weakness, list all the material weaknesses, both corrected and uncorrected, contained in your organization’s current fiscal year Annual Statement of Assurance that are related to the systemic weaknesses, both corrected and uncorrected. The Component Annual Statement page number of the related weaknesses should be shown immediately to the right of the title of each weakness.

MATERIAL WEAKNESSES/CORRECTIVE ACTIONS

This section presents management control weakness information in three subset tabs:

- A listing of the titles of all uncorrected and corrected material weaknesses as of the conclusion of the current period along with actual and projected correction dates (Tab B-1)
- Narratives for the uncorrected material weaknesses identified in the summary listing (Tab B-2)
- Narratives for all material weaknesses corrected during the current period (Tab B-3).

The three subset tabs are illustrated on the following pages.

DoD Management Control Reporting Categories: Material weaknesses, both uncorrected and corrected, should be grouped by the DoD functional category designations displayed below. Definitions of the categories may be found at enclosure 4 of DoD Instruction 5010.40, “Management Control Program Procedures.”

- Research, Development, Test and Evaluation
- Major Systems Acquisition
- Procurement
- Contract Administration
- Force Readiness
- Manufacturing, Maintenance, and Repair
- Supply Operations
- Property Management
- Communications and/or Intelligence and/or Security
- Information Technology
- Personnel and/or Organization Management
- Comptroller and/or Resource Management
- Support Services
- Security Assistance
- Other (Primarily Transportation)

LISTS OF UNCORRECTED AND CORRECTED MATERIAL WEAKNESSES

This section should be developed following the completion of Tab B-2 and Tab B-3 since it is a summary listing of Tab B-2 and Tab B-3 weakness titles and correction dates. The material weakness titles should be divided into three groupings: Uncorrected Weaknesses Identified During the Period (the current fiscal year); Uncorrected Weaknesses Identified During Prior Periods; and Corrected Weaknesses Identified During All Periods.

Uncorrected Weaknesses Identified During the Period: (List by DoD category, in the order provided on page 10)

<u>Title</u> (1)	<u>Targeted Correction Date</u> (4)	<u>Page #</u> (5)
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Uncorrected Weaknesses Identified During Prior Periods: (List by DoD category, in the order provided on page 10)

<u>Title</u> (1)	<u>Year First Reported</u> (2)	<u>Correction FY Date</u> <u>Per Last Annual Statement</u> (3)	<u>Per This Annual Statement</u> (4)	<u>Page #</u> (5)
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Corrected Weaknesses Identified During All Periods: (List by DoD category, in the order provided on page 10)

<u>Title</u> (1)	<u>Year First Reported</u> (2)	<u>Page #</u> (5)
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NOTES:

1. Titles should be identical to those found on the material weakness narratives provided in Tab B-2 or B-3.
2. The fiscal year in which this weakness was first reported. List starting with the most recently reported material weakness, continuing to the oldest.
3. The fiscal year noted as the targeted date for correction of the material weakness in the Component's FY 1999 Annual Statement.
4. The fiscal year noted as the targeted date for correction of the material weakness in the Component's FY 2000 Annual Statement.
5. The page number is that of the first page of the material weakness narrative as found in Tab B-2 or B-3.

UNCORRECTED MATERIAL WEAKNESSES STATUS OF CORRECTIVE ACTIONS

This enclosure should provide a narrative for each uncorrected material weakness identified by the Component for which corrective actions have not been completed, regardless of the year of first reporting. Each weakness should begin at the top of a new page. The narratives contained in Tab B-2 should be grouped into two subsections: “Uncorrected Weaknesses Identified During the Period” and “Uncorrected Weaknesses Identified During Prior Periods.”

For weaknesses appearing in the first subsection, “Uncorrected Weaknesses Identified During the Period,” the appropriate response for items 5, 6 and 7 (below) is “N/A.” **(The numbers and letters used below are only provided to assist in your comprehension of this guidance and should not appear in your Annual Statement. Only the headings should appear. The headings should not be in bold type in your Annual Statement.)**

Remember that acronyms must be spelled out the first time they are used in every material weakness narrative. This is necessary because narratives are reproduced directly from the “electronic” version of your statement. Other sections of Component statements are not used in the DoD statement. Each deviation from this guidance delays the completion of the DoD statement.

The narratives must follow the format below. Use the headings indicated below in bold type in the exact sequence. **Do not exclude sections.** If they are not applicable simply note “N/A” following the heading. **Do not include the numbers that appear before the headings below; they are provided to assist in your comprehension of this guidance.**

1. **Title and Description of Material Weakness:** If the weakness was reported in a prior year, indicate the OSD Tracking System weakness number parenthetically following the title.
2. **Functional Category:** Indicate one of the 15 functional categories provided on page 10 of this guidance.

Pace of Corrective Action:

3. **Year Identified:** Fiscal year of the Annual Statement in which the weakness was first reported by the Component.
4. **Original Targeted Correction Date:** Fiscal year of the targeted correction date as it was first reported by the Component in item 3 above.
5. **Targeted Correction Date in Last Year’s Report:** Fiscal year of the targeted correction date as it was reported in the Component’s FY 1999 Annual Statement.
6. **Current Target Date:** Fiscal year of targeted correction date per this reporting.
7. **Reason For Change in Date(s):** Reason for change in fiscal year if response to item 5 is different from item 6. Indicate “N/A” if item 5 and 6 are the same.
8. **Component/Appropriation/Account Number:** Identify the title of the DoD Component related appropriation(s) and account number. The amount of the appropriation is not required. When identifying the appropriation(s), nomenclature should be consistent with

standard DoD designations, e.g., Operation and Maintenance, Army; Research, Development, Test and Evaluation, Navy; Aircraft Procurement, Air Force; and Military Construction, Defense Agencies.

9. **Validation Process:** Briefly indicate the methodology that will be used to certify the effectiveness of the corrective action and the date that certification is projected to take place. Indicate the role the Inspector General, or the Component Audit Service can or should play in verification of the corrective action.
10. **Results Indicators:** Describe key results that have been or will be achieved in terms of performance measures. Performance measures are quantitative and/or qualitative measures that determine the benefits derived or will be derived from the corrective action and the overall impact of the correction on operations. If monetary benefits are determinable, that information should be provided here.
11. **Source(s) Identifying Weakness:** Use the following other applicable sources: (a) Management Control Program Evaluation; (b) IG, DoD; (c) Component Audit Service; (d) GAO; (e) Component Internal Review Organization; (f) Component IG; or (g) Other. When audit findings are the source of weakness identification, identify the name, number and date of the document in which the weakness was identified. If the weakness was identified by more than one source, list all identifying sources in order of significance. Please note that dates should be written civilian style (e.g., December 31, 2000), not military style (e.g., 31 December 2000), and do not abbreviate the month.
12. **Major Milestones in Corrective Action:** A milestone chart indicating actions taken and those actions planned for the future. Milestones should be separated into three categories: (a) completed milestones, (b) milestones planned for FY 2001, and (c) milestones planned beyond FY 2001. Milestones should be listed in chronological order by milestone completion date with the terminal milestone listed last. The terminal milestone should be the final corrective action, and should either be or include the verification of the correction. For weaknesses reported in previous years, there is no need to note or explain changes in milestone dates; simply indicate the updated date for each milestone. The letter "C" (for completed) should be used for accomplished milestones, rather than a date. All future milestones should reflect the date based on the fiscal year semiannual period in which the milestone will be accomplished. For example, all milestones completed in the first half of fiscal year 2001 should be dated 3/01 and all milestones occurring in the second half of fiscal year 2001 should be dated 9/01. The appropriate format is as follows:

Completed Milestones:

Date:	Milestone:
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Planned Milestones (FY 2001)

Date:	Milestone:
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Planned Milestones (Beyond FY 2001)

Date:	Milestone:
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13. **Status of Participating Functional Office/Organization:** If support of another office within the reporting Component's organization; another Component (e.g., Army, Joint Staff or

Defense Commissary Agency), or another organization (e.g., an OSD functional office) is necessary for the correction of this material weakness, the Component should list those organizations. After each office, indicate whether that support is: assured, undetermined, or not anticipated. For example:

Comptroller (I)	Assured
Command, Control, Communications and Intelligence (X)	Assured
DLA (X)	Assured

NOTE: Functional offices should be identified with an “I” if they are internal to the reporting organization and identified with an “X” if they are external to the reporting organization.

DoD Components may modify the suggested formatting of this data if an alternative presentation provides a clearer understanding of the major participants in the resolution of the control deficiency. This information is predicated on the perceptions or understandings of the management of the office reporting the management control weakness. The information shall be retained within the Department and not reported in the DoD Annual Statement of Assurance. It shall, however, be shared with the identified functional offices and organizations consistent with the Secretary’s 1994 guidance in order to assure a higher level awareness of control deficiencies within the Department.

14. **Point of Contact:** The name and telephone number of the official responsible for administering the implementation of corrective actions.

MATERIAL WEAKNESSES CORRECTED THIS PERIOD

Tab B-3 should provide a narrative for each material weakness for which corrective actions have been completed in FY 2000. Each material weakness should begin at the top of a new page. The Tab should be grouped into two subsections: "Identified During the Period" and Identified During Prior Periods."

Weaknesses appearing in Tab B-3 should follow format and data requirements identified for Tab B-2. Item 12, "Major Milestones in Corrective Actions," however, will reflect only completed milestones. Item 13, "Status of Participating Functional Office/Organization," should be omitted.

REPORT ON SYSTEM CONFORMANCE TO OFFICE OF MANAGEMENT AND BUDGET FINANCIAL SYSTEM REQUIREMENTS

Federal agency finance, accounting and critical feeder system requirements are prescribed by OMB Circular A-127-Revised. Instructions for completing the FMFIA section 4 report on conformance to the OMB requirements were forwarded with a March 1, 2000, memorandum from the Principal Deputy Under Secretary of Defense (Comptroller), subject: "Fiscal Year (FY) 2000 Financial Management Improvement Plan." The memorandum stated that, for FY 2000, the Department is again combining the FMFIA section 4 requirement with other legislative and regulatory reporting requirements into its "Financial Management Improvement Plan" (FMIP). A copy of that memorandum is included as appendix II of this guidance.

No additional action related to FMFIA section 4 reporting, beyond that required for the FMIP, is required of the Components for their Annual Statement of Assurance submission. For additional information on the FMIP, please contact Mr. Kris Beaubien by e-mail at: beaubiek@osd.pentagon.mil or by telephone at (703) 604-6350, extension 127 (DSN 664-6350).